

The National Planning Commission:

Draft National Development Plan

Chapter 3 on Economy and Employment

Draft, 11 November 2011

Extracts

From the Draft National Development Plan

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Vision 2030

Achieving full employment, decent work and sustainable livelihoods is the only way to improve living standards and ensure a dignified existence for all South Africans. Rising employment, productivity and incomes are the surest long-term solution to reducing inequality. Similarly, active steps to broaden opportunity for people will make a significant impact on both the level of inequality and the efficiency of the economy.

This will be achieved by expanding the economy to absorb labour and improving the ability of South Africa's people and institutions to respond to opportunities and challenges.

We can reduce the unemployment rate to 6 percent by 2030. It will require leadership, difficult political choices and effective implementation. It will require a rebalancing and realignment of key areas of government policy alongside some reprioritisation in economic policy.

To achieve full employment, the country needs to create about 11 million more jobs in the next 20 years. We estimate that the economy would have to grow by about 5.4 percent on average every year over this period to achieve this aim. This chapter outlines how the country can both accelerate growth and make it more labour absorbing...

A responsive labour market

The labour regime needs to be more responsive to the challenge of simultaneously expanding employment opportunities, raising living standards and reducing inequality. The labour environment operates in a context of slow growth, insufficient levels of employment, and weak skills. Issues that need attention include:

- Improving access to lifelong learning and career advancement.
- Stabilising the labour environment, improving dispute resolution and shop-floor relations.
- Clarifying dismissal and retrenchment provisions in the Labour Relations Act (1995) Code of Good Practice and its management.
- Strengthening the labour courts and resourcing the Commission for Conciliation, Mediation and Arbitration (CCMA).
- Reviewing regulation and standards for small and medium enterprises.
- Addressing public employment labour relations, wage setting, performance and the management of essential services.

Labour relations involve buyers and sellers in a highly contested terrain. In South Africa, there are extreme income and wage inequalities. Achieving desired social objectives is a challenge, particularly given competing interests of reducing mass unemployment, raising living standards and closing the earnings gap. In the earlier phase of the plan, emphasis will have to be placed on mass access to jobs while maintaining standards where decent jobs already exist.

Historically, race-based labour rules entrenched apartheid injustice and increased inequality.

The central role of the new labour regime was to define and protect against unfair labour practices; minimise dispute settlement costs, ensuring visibly fair outcomes; promote collaboration between workers and employers to enable industrial expansion, with visibly fair distribution of benefits; and overcome obstacles to skills development and career mobility.

Today, almost 30 percent of those in formal employment are unionised. About 1 million work days were lost to strikes annually in the eight years after the Labour Relations Act was passed. In 2007, 9.2 million days were lost and in 2010, 20 million days were lost, suggesting that the labour relations environment has become particularly fraught.

South Africa needs to ensure better workplace relations, more protection of the rights of vulnerable workers, and promotion of an inclusive development path. With these rights come responsibilities for employer and worker organisations, as well as the state. This new scenario will require leadership, maturity and a commitment to rising employment, living standards and productivity.

Wage determination in the private sector

Wage determination needs to be more conducive to employment and equity objectives. Some considerations include:

- Ensuring a fair division of earnings in a context of extreme inequality
- Determining affordable wages that support economic expansion
- Recognising the need to achieve a social floor, including the social wage (e.g. free basic services, transport costs) and measures to reduce inflation of basic commodities and that of administered prices.

From a 20 year perspective, real wage growth will need to be linked to productivity growth – although it is possible for it to veer off for a few years, it is not feasible to sustain a labour-absorbing path unless both are growing in tandem. This is a sensitive, but critical point. Raising economy-wide and intra-firm productivity will help achieve rising real wages and expanding employment.

The median income from work was R2 800 per month in 2010 overall, and R3 683 per month in the non-agricultural formal sector. The bottom 25 percent earned R1 500 per month, the top 25 percent R6 500, and the top 5 percent R17 000. Within the top 5 percent, there is significant upward variation. The variation by race and gender is substantial. Average earnings for women are 25 percent to 50 percent less than for men. In the bottom 50 percent of earners, the average earnings of African workers is one-quarter to one-fifth that of their white counterparts. With high dependency ratios in low-income households, the majority of working people live near or below the poverty line.

Addressing this tension requires an appreciation of the multi-dimensional relationships among a variety of factors: Mass labour absorption will reduce the dependency ratio and thus lift the pressure on the employed. State interventions and cooperative relations with business will help reduce prices of basic commodities and improve the social wage. Employers will need to commit to higher rates of investment, labour absorption and equitable sharing of the benefits of higher growth and productivity. Measures such as entry-level wage flexibility should be encouraged but should not be exploited to displace experienced workers. In other words, there should be commitment to achieve the objectives agreed upon, within the rules that are jointly developed.

Skills supply

Active labour market policies

In South Africa, low-income households live far from the centre of economic activity. The costs of searching for and getting to work are high, and information about work is often unavailable. In this context, labour market services are critical, including those that prepare and match work seekers with opportunities. Low-cost and efficient public transport is essential – the approach to achieving this is discussed in the chapter on human settlements.

Several labour market experiments will be put into action from 2012. The following proposals will strengthen labour matching and increase skills development and supply:

- Driver training for school leavers.
- Offer a tax subsidy to employers to reduce the initial cost of hiring young labour market entrants; and facilitate agreement between employers and the unions on entry-level wages.
- Give a subsidy to the placement sector to identify, prepare and place matric graduates into work opportunities. The placement company will be paid upon successful placement.
- Extend the non-state sector Expanded Public Works Programme's employment incentive, aimed at increasing employment in non-profit organisations.
- Expansion of learnerships and making training vouchers directly available to work seekers.

- Employee retention schemes, which offers short-time work during periods of low demand.
- Provide access to lifelong learning that improves employability and measures to expand further and higher education throughput and quality (as discussed in Chapter 9).
- Adopt a more open approach to skilled immigration to enable expansion of high-skill supply in the short term, in a manner that obviates displacement of South Africans.

Labour market regulation

To achieve a decent work agenda, a balance is needed between enabling faster expansion in employment opportunities and the protection of human rights. There is evidence that policy intervention is required to improve employment creation and labour protection. The main areas that require attention include:

- An approach to handling probationary periods that reflects the intention of probation
- An approach that simplifies dismissal procedures for performance or misconduct
- An effective approach to regulating temporary employment services
- Monitoring compliance to statutory sectoral minimum wages
- Implementing and monitoring health and safety regulations
- Strengthening the CCMA and the Labour Court in dispute resolution and in support for trade unions and employers in managing shop-floor relations
- Limiting the access of senior managers who earn above R300 000 to the CCMA, given that their employment contracts better regulate dismissal procedures.

Approach to probation and dismissals

Probation allows employers to assess the suitability of employees. It is set for a specified period, often six months, to determine whether a new employee fits in based on capability, performance, personality, culture and other factors. Probation is twofold. It allows the new employee the opportunity to perform, but also gives the employer the chance to avoid undue risk. Uncertainty about the application of

current provisions undermines the willingness of firms to hire inexperienced workers.

To ease entry into formal work opportunities, ordinary unfair dismissal protections should not apply to employees on probation, up to a limit of six months of service. This means that the contract is assumed to be limited to the probationary period, unless confirmed otherwise. To prevent the abuse of terminating and re-employing just before the probationary period expires, the period of service could include all previous service with the employer, whether directly or through a temporary placement agency.

Dismissals: misconduct or poor performance

Employers are concerned by pre-dismissal procedures in cases of misconduct or poor performance. The Code of Good Practice has a simple set of guidelines for such cases. However, experience has not reflected this simplicity. The old Industrial Court developed jurisprudence under the old Labour Relations Act that imposed strict procedural requirements on pre-dismissal hearings. Despite the amended act trying to break from this approach; lawyers, arbitrators and judges continue to apply technical and exacting jurisprudence in applying the new act. Rulings from the Labour Court have clarified that the “criminal model” of procedural fairness is not consistent with the 1996 act and arbitrators are required to follow a less technical approach. The procedures, however, remain too strict and formulaic, and are inconsistent with legislation on the statute books. There is also anecdotal evidence showing that there may be excessive reversal of dismissals on procedural rather than substantive grounds.

To reduce the regulatory burden, we recommend that the pre-dismissal procedure requirements be revisited to simplify the procedures. Any appeal or reversal of a dismissal should be ruled on substantive and not procedural grounds, except in the case of constructive dismissal.

Labour regulation for small business

Small businesses highlight the obligations of labour legislation as one of the main regulatory burdens, arguing that they generally do not have the financial or administrative resources to comply with all regulatory requirements. This does not, however, imply that these businesses should be exempt from labour regulatory requirements, as complete exemption may act as a perverse incentive for a race to the bottom among small business and for larger employers to reduce their workforce to circumvent labour regulation.

To reduce the regulatory burden for small and medium enterprises, we recommend that the Code of Good Practice clearly lay out procedures appropriate to small business.

Compliance requirements and reporting to employment equity and skills development regulations for small firms should be simplified, or even eliminated for very small firms.

Dismissal of senior managers

The laws on dismissal apply to all employees, regardless of their level of seniority or skill. This is despite the fact that senior managers and even professionals can be excluded from protection from unfair dismissal as they should be adequately protected in terms of their employment contracts. Evidence suggests that senior managers use free services offered by the CCMA to get large financial settlements or to avoid dismissal, or both – even in a situation of egregious misconduct. This is a concern, particularly for the public service.

To prevent regulatory duplication and to reduce the burden on the CCMA, it is recommended that laws of unfair dismissal apply to senior management, but that private mediation and arbitration services, or the courts, are used, not the CCMA.

Strengthening the Commission for Conciliation, Mediation and Arbitration and the Labour Court

The CCMA is an independent institution overseen by a tripartite governing body. This system was intended to provide cheap, quick, accessible and informal dispute resolution. Cases not settled by mediation or arbitration are referred to the Labour Court. Labour courts are specialist courts with national jurisdiction and have the same status as the High Court of South Africa.

Bargaining councils play an essential role in dispute resolution within their respective sectors. They typically handle about 90 000 cases a year. The CCMA plays a larger role for unorganised sectors, such as domestic workers.

The operational efficiencies of this institution and the labour courts are important for the effective operation of the labour market.

The Labour Court handles only a fraction of all disputes, as intended by the new labour regulatory regime. Even so, the courts are not handling this reduced caseload well. Only 20 percent of reviews lodged with the labour courts in the first 10 years of the CCMA's operation had been finalised. It takes an average of 24

months for a review application to be heard in the Labour Court. In the Labour Appeal Court, it is reported that delays between 12 and 18 months between date of hearing and date of judgment are not uncommon.

A review of the funding model of the CCMA and the operational functionality of the Labour Court and Labour Appeals Court is recommended.

Regulating temporary employment services

Private temporary employment and placement services have significantly contributed to labour market matching in the past two decades. This may partly be explained by formal employers seeking to circumvent labour regulations. It may also be caused by the rapid expansion of services sectors, which have been the main source of employment growth. Bhorat (in a paper prepared for the National Planning Commission) estimates that 900 000 people have been placed in some work opportunity as a result of the temporary employment services sector. These services are essential given the fragmented labour market, where low-income households are generally far from economic opportunity with weak labour market networks. Most new opportunities are in services activities, which often involve changing jobs periodically. These employment services raise the chance of achieving more regularised employment, as well as access to skills training for new placements. Such a service provides the opportunity for regulation and access to benefits for workers.

The private labour placement sector and temporary employment services need to be effectively regulated to ensure that the opportunity for labour matching is available to vulnerable workers, while protecting basic labour rights. Some basic provisions would ensure that after six months with a temporary employment service and/or client, they would be jointly and severally liable for unfair dismissal and unfair labour practices. The temporary employment service would be responsible for the employment relationship regarding the Unemployment Insurance Fund, the Compensation for Occupational Injuries and Diseases Act, the Basic Conditions of Employment Act and the Skills Development Act.

Public-sector employment

The public service typically plays an important role in employment creation. South Africa exhibits a paradox in this regard. The public sector employs about 9 percent of the labour force and accounts for about 18 percent of formal employment. Despite this limited number, the public service wage bill (including local government) exceeds 12 percent of GDP – very high by both developed and developing country standards.

South Africa's public sector is faced with a difficult dilemma. In a skills-constrained economy, the premium for skilled labour is high. This pushes up the salaries of skilled people in the public service. The public service also pays well above the market rate for low-skilled people, inhibiting its ability to create low-skill jobs.

In theory, it should be possible to grow public employment in areas such as health, policing, social welfare and education. This however will need to be balanced against the magnitude of increases in public sector salaries. Furthermore, opportunities need to be identified in entry-level services such as auxiliary nurses, community health workers and day-care services for pre-schools.

Public employment schemes

Public employment schemes will be an essential part of an employment plan to 2030. The main opportunities will lie in community-based services. Realistically, it will be essential to plan and budget for a minimum of 2 million opportunities annually.

It should always be recognised that the emphasis should be placed on generating market-based opportunities where possible.

The problem of unemployment and under-employment has become too big for market-based solutions to solve in the next 10 to 20 years. The problem includes both severe unemployment and very low levels of remuneration from market-based employment. There is no doubt that market-based employment is the most sustainable source of job creation but in even the most optimistic of scenarios, many people are likely to remain out of work. Low productivity, non-market services such as expanded public works projects in government construction, care, self-help projects and survivalist activities are generically called public employment schemes.

The public employment programmes should target the creation of 2 million opportunities annually by 2020 or earlier if possible. The central challenge is to identify institutional approaches that enable the achievement of this scale. Few programmes have succeeded. The Community Works Programme, which decentralises decision making to the ward level, holds this promise. It is probable that most opportunities will be found in community-based care such as early childhood development. These employment schemes should therefore complement social delivery programmes to strengthen community reach.

Role of the state and institutional capability

This plan places a high premium on making specific choices to launch the country onto a higher growth trajectory. It avoids seeking to address all the challenges all at the same time. Firm and focused leadership by government will be critical in this regard. The major institutional challenges in the public sector are dealt with in Chapter 13. In the economic sphere, among the major stumbling blocks to efficient economic services are poor coordination and integration, multiple priorities and an undefined hierarchy of authority among the plethora of government departments involved in the economic sector.

While the outcomes process has helped to foster a degree of integration, South Africa has not yet seen the fruits of this initiative.

The country also needs to clarify its mind, and develop a firm and consistent view on the issue of the role of the state in the economy. The realisation of the economic, and indeed other, objectives of Vision 2030 requires long-term commitments by all sectors of society including the private sector. Policy certainty is therefore critical.

Specific proposals include:

- Strengthen the role of the state as service provider, as the core provider of public goods (such as infrastructure and other public services), as an economic regulator, as a consumer and as a critical player in giving leadership to economic development and addressing market failures.
- Ensure a clear system of hierarchy and decision-making across economic line function departments and spheres of government.
- Responsiveness on the part of the state to anticipate possible crises and respond to them rapidly and appropriately.

- Ensure that there are significant consequences for not reaching targeted impacts, whether in social or economic areas of delivery.
- Measure performance in economic services departments on the basis of success or otherwise in facilitating investment and building partnerships among the economic actors.
- Improve trust between the public and private sectors, and ensure that private actors are treated as partners in policy design and implementation and that the private sector in turn responds to and facilitates the realisation of national objectives.
- Urgently address constraints to public-private partnerships – including the institutional arrangements for regulation and execution of such partnerships as well as relevant capacity in government departments and spheres.
- Any direct state involvement in productive sectors should be informed by the “balance of evidence”, in relation to stimulating economic growth and competitiveness, creating jobs and reducing inequality, as well as availability and optimal deployment of public resources.

Conclusion

Achieving full employment and sustainable livelihoods is possible. Moving onto this new trajectory of high, sustained and job-creating growth implies a break from our current path dependency. It requires a commitment by all sectors of society to contribute to the efforts required to meet our common objectives. There will be moments when difficult choices will have to be made.

Trade-offs and choices

Achieving full employment, decent work and sustainable livelihoods will depend on choices that have to be made during various phases to 2030.

The ability to do this is a function of leadership among all social partners.

The achievement of the objectives and targets in this plan will be to the benefit of all. But each sector of society needs to agree on the contribution it will make.

At given moments, some may have to carry the heavier part of the load. At other moments, it would be the turn of others.

Given the fact that many of the proposals in this plan will take some time to register any meaningful impact, it is critically urgently to introduce the active labour market policies proposed in this chapter, to initiate massive absorption of young people and women into economic activity. This will require decisiveness on the part of the state and a strategic approach to negotiations on the part of, and building trust between, business and labour.

Role of the state

The state not only has a role in setting the appropriate macroeconomic framework. It must also provide the right microeconomic conditions, to ensure that the day-to-day decisions and actions of people and companies help deliver the best social and economic outcomes. It is these frameworks and interventions that determine the social and economic climate that we live in, and therefore the level of economic growth and employment.

Among others, the state must enhance regulation of market participation, identify and resolve market failures, provide appropriate public infrastructure and services and help in lowering transaction costs across the economy.

The private sector

Most of the jobs will be created in the private sector. This however will require South African entrepreneurs to be vibrant and seize opportunities when and where they arise; and to adapt themselves to the continuous process of technological change.

Rather than rely on economic rent and endeavouring to accumulate the bulk of the rewards of improved productivity and general economic performance, the private sector should embrace entrepreneurship, innovation and an equitable sharing of the fruits of prosperity.

Worker leadership

Worker-leaders have to advance and defend the interests of employed workers, and with other sectors of society, ensure that inequality is reduced. At the same time, they need to take into consideration those who are presently marginalised from economic activity.

Allowing for greater access to the labour market for those not active in the economy and ensuring that those currently without appropriate voice are adequately catered for is a responsibility of leaders of workers and society at large.

The first phase (2012 – 2017)

Movement towards an inclusive and dynamic economy requires that the country should urgently launch the virtuous cycle that allows it to move to a new growth trajectory.

In the early years, emphasis will be on absorbing the unemployed, especially young people, into economic activity.

Higher mining exports during this period of high commodity prices will help pay for the development of capabilities and endowments to forge a new path in the economy of the future. Urgent investments in rail, water and energy infrastructure, alongside regulatory reforms that provide policy certainty are needed. At the same time, the private sector should commit more investments to supplier industries for the infrastructure programme and in general economic capacity while capital costs are low and the price of imported equipment is cheaper. Opportunities for large exports to sub-Saharan Africa and other destinations in the developing world should be creatively pursued.

Concurrently, policy instruments and agreements on moving to the next phase should be ironed out. The plan identifies a number of steps required to move towards this new path. These include the prioritisation of actions that lift key constraints to economic expansion. While government's responsibility is necessarily broader, there will be an understanding that these actions will receive more priority than others. In the first five years, the commitment will be to:

- Doubling the annual expansion in high skills supply and improving education throughput in primary and secondary levels.
- Improving the labour relations environment.
- Interventions to improve labour market matching.
- Ensuring the supply of energy and water is ensured and sufficient for a growing economy, and that the responsibility of municipal maintenance of distribution systems are appropriately allocated and funded.
- Intensify R&D spending, emphasising opportunities linked to existing industries.

- Develop the arrangements for a Financial Centre for Africa.
- Implement the commitment by government to promote industrial diversification through its procurement programme.
- Change the approach to land tenure systems that stimulates production and economic opportunity, thereby reducing uncertainty.
- Expand public employment programmes rapidly.

The second phase (2018 – 2023)

Subsequent to this, focus should be on diversifying the economic base. This should include building the capacities required to produce capital and intermediary goods for the infrastructure programme and sub-Saharan Africa. It should include resource cluster development for the mining industry combining production of capital goods, provision of engineering services, and beneficiation that targets identified opportunities.

In this phase, the basis must be laid to ensure more intensive improvements in productivity. Innovation across state, business and social sectors should start to become pervasive. Centres of learning should be aligned to industrial clusters with potential for domestic and global linkages. Innovation should also focus on public service improvements and on goods and services aimed at low-income sectors.

Approaching 2030

As the country approaches 2030, the emphasis should be on consolidating the gains of the second phase, with greater emphasis on innovation, improved productivity, more intensive pursuit of a knowledge economy and better exploitation of comparative and competitive advantages in an integrated continent.

Closer to 2030, South Africa should be approaching “developed world” status, with the quality of life greatly improved across the board, with skilled labour becoming the predominant feature of the labour force, with levels of inequality greatly reduced.

Chapter 3 of the draft SA National Development Plan, “Economy and Employment” (25 pages, 512 KB PDF), is at:

<http://www.npconline.co.za/MediaLib/Downloads/Home/Tabs/New/Chapter%203%20-%20Economy%20and%20employment.pdf>

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